

Message Text

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PAGE 01 BRASIL 02155 111732Z

43

ACTION EB-07

INFO OCT-01 ARA-06 EA-07 ISO-00 SP-02 USIA-06 AID-05

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 AGR-05 IO-11 PA-01 PRS-01

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P R 111400Z MAR 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4474

INFO AMEMBASSY LIMA

AMEMBASSY MANILA

AMEMBASSY MEXICO

AMEMBASSY SANTIAGO

AMEMBASSY SEOUL

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E.O. 11652: N/A

TAGS: EFIN, EAID, UNCTAD, BR

SUBJECT: DEBT PROBLEMS OF DEVELOPING COUNTRIES

REF: STATE 34445

1. SUMMARY: BRAZIL'S POSITION ON DEBT PROBLEMS OF DEVELOPING COUNTRIES REMAINS ESSENTIALLY ONE OF CONSIDERING DEBT RELIEF ON A CASE-BY-CASE BASIS FOR COUNTRIES THAT CAN DEMONSTRATE NEED. BRAZIL SUPPORTED THE G-77 REPORT IN MANILA FOR POLITICAL REASONS BUT ONLY AFTER LANGUAGE PROPOSED BY THE UNCTAD SECRETARIAT WAS SUBSTANTIALLY WATERED DOWN. BRAZILIAN OFFICIALS DO NOT EXPECT NAIROBI MEETING TO APPROVE MAJOR POLICY DEPARTURE ON DEBT AND ANTICIPATE THAT OUTCOME OF THAT SESSION DEPENDS TO A LARGE DEGREE ON ATTITUDE OF CREDITOR

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PAGE 02 BRASIL 02155 111732Z

COUNTRIES. BRAZIL WILL OPPOSE THE MORE "RADICAL"

PROPOSALS WHICH MAY ADVERSELY AFFECT ITS POSITION IN THE PRIVATE CAPITAL MARKETS. OFFICIALS REITERATED THAT BRAZIL'S MAIN INTEREST LIES WITH EFFORTS AT IMPROVING ITS ACCESS TO THE PRIVATE CAPITAL MARKETS AND NOT WITH DEBT RELIEF. END SUMMARY.

2. FINATT DISCUSSED SUBJECT OF DEBT PROBLEMS FOR DEVELOPING COUNTRIES WITH COSTA FRANCO, CHIEF, FINANCIAL POLICY DIVISION, FOREIGN MINISTRY AND WITH PEDRO PAULO ASSUMPCAO, MEMBER OF COSTA FRANCO'S STAFF, WHO ATTENDED G-77 MEETING IN MANILA. APPROACH TO FOREIGN MINISTRY WAS DELAYED BY ABSENCE FROM BRASILIA OF COSTA FRANCO, WHO WAS IN PARIS AS HEAD OF BRAZILIAN DELEGATION TO MEETING OF CIEC FINANCIAL COMMISSION. MEMBERS OF FINANCIAL POLICY DIVISION USUALLY ACT AS SPOKESMEN FOR BRAZIL ON FINANCIAL MATTERS IN INTERNATIONAL FORA OTHER THAN IMF AND MULTILATERAL LENDING INSTITUTIONS. HOWEVER, POLICY LINE TAKEN BY FOREIGN MINISTRY REPRESENTATIVES IS COORDINATED CLOSELY WITH THE CENTRAL BANK AND FINANCE MINISTRY, AND REPRESENTS AGREED POSITION OF GOB.

3. DISCUSSION WITH COSTA FRANCO AND ASSUMPCAO REVEALED THAT, DESPITE ITS SUPPORT FOR G-77 MANILA REPORT, BRAZIL'S POLICY ON DEBT REMAINS UNCHANGED; IT CONTINUES TO FAVOR A CASE-BY-CASE APPROACH FOR COUNTRIES WHICH CAN DEMONSTRATE NEED. BRAZIL CONCURRED WITH THE FINAL G-77 POSITION FOR POLITICAL REASONS. IT BELIEVED IT COULD NOT DISSENT WITHOUT JEOPARDIZING ITS POSITION OF SOLIDARITY WITH THE THIRD WORLD. IN ADDITION, BRAZILIAN OFFICIALS ARGUED THAT DEBT IS A SERIOUS PROBLEM FOR MANY OF THE LDCS AND THE MANILA ACCORD GIVES THIS FACT RECOGNITION. COSTA FRANCO AND ASSUMPCAO ARGUED, HOWEVER, THAT THE LANGUAGE APPROVED IS SO VAGUE AS TO LEAVE AMPLE ROOM FOR COMPROMISE BETWEEN THE DCS AND LDCS IN THEU NAIROBI MEETING.

THEY MAINTAINED ALSO THAT ANY EFFORT AT GENERALIZING DEBT RELIEF IS DOOMED TO FAILURE SINCE THE CREDITOR COUNTRIES WOULD NOT AGREE LIMITED OFFICIAL USE

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PAGE 03 BRASIL 02155 111732Z

TO IT. THEY SAID BRAZIL COULD NOT SUPPORT THE EXTREME POSITION OF THE UNCTAD SECRETARIAT AND THE ASIA AND AFRICA GROUP, BECAUSE THE APPROVAL OF SUCH A SCHEME WOULD UPSET TRADITIONAL DEBTOR/CREDITOR RELATIONSHIPS. THIS, THEY FEARED, WOULD ADVERSELY AFFECT BRAZIL'S ACCESS TO PRIVATE CAPITAL SOURCES.

4. ASSUMPCAO, WHO WAS PRESENT IN MANILA, WENT INTO

GREAT DETAILS DESCRIBING HOW BRAZIL AND OTHER MORE ADVANCED LDCS JOINED FORCES TO WATER DOWN THE ORIGINAL UNCTAD SECRETARIAT PROPOSAL. HE INDICATED THAT THE ORIGINAL DRAFT, WHICH INCLUDED A PROVISION FOR THE ESTABLISHMENT OF A MULTILATERAL FINANCIAL INSTITUTION DESIGNED TO FUND SHORT-TERM DEBTS OF LDCS, WAS VERY DETAILED AND CALLED FOR VIRTUAL AUTOMATICITY OF DEBT CONSOLIDATION WITHOUT REGARD TO INDIVIDUAL COUNTRIES' NEEDS. BRAZIL AND THE OTHER MORE ADVANCED LDCS SUCCEEDED IN PUTTING ASIDE THIS SCHEME AND GET THE OTHERS TO ACCEPT MUCH MORE GENERAL LANGUAGE. ASSUMPCAO CALLED ATTENTION TO THE FACT THAT EVEN THIS MORE GENERAL LANGUAGE INCLUDES A PROVISION FOR ITS APPLICABILITY ONLY TO "INTERESTED DEVELOPING COUNTRIES." BRAZIL SEES THIS REFERENCE AS AN IMPORTANT "ESCAPE CLAUSE." BRAZIL DOES NOT SEE ITSELF AS AN "INTERESTED PARTY" AND IS PREPARED TO STATE AS MUCH PUBLICLY SHOULD IT BE REQUIRED TO DO SO.

5. ASSUMPCAO STATED THAT BRAZIL'S MAIN INTEREST LIES WITH MEASURES TO IMPROVE ACCESS TO FINANCIAL MARKETS, A TOPIC ALSO DEALT WITH IN THE MANILA REPORT, AND NOT WITH THE ISSUE OF DEBT. WHILE BRAZIL CURRENTLY HAS CONSIDERABLE ACCESS TO THE PRIVATE CAPITAL MARKET, HE MAINTAINED THAT THIS COULD BE IMPROVED FURTHER BY EASING SOME OF THE PRESENT RESTRICTIONS.

6. WITH RESPECT TO THE NAIROBI MEETING, BRAZILIAN OFFICIALS ANTICIPATE THAT THE OUTCOME DEPENDS, TO A LARGE DEGREE, ON THE ATTITUDES OF THE DEVELOPED COUNTRIES. IN THIS REGARD, THEY NOTED THAT THE U.S. MAY FIND ITSELF PITTED NOT ONLY AGAINST DEBTOR COUNTRIES BUT ALSO AGAINST SOME OF THE CREDITORS.

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PAGE 04 BRASIL 02155 111732Z

THEY INDICATED THAT SOME OF THE EUROPEAN COUNTRIES APPEAR TO BE CONSIDERABLY MORE FLEXIBLE THAN THE U.S. ON THIS ISSUE. THEY IMPLIED THAT BRAZIL WILL CONTINUE TO BE A MODERATING INFLUENCE, TOGETHER WITH THE MORE ADVANCED LDCS, IN ORDER TO STAVE OFF SOME OF THE MORE "RADICAL" PROPOSALS.

7. COMMENT: BRAZIL'S POSITION ON DEBT IS CLEARLY AMBIVALENT. ON ONE HAND, IT SUPPORTS THE LDCS IN THEIR EFFORTS AT OBTAINING RECOGNITION OF, AND POSSIBLE RELIEF FROM, THEIR HEAVY EXTERNAL DEBT BURDEN. ON THE OTHER HAND, IT WISHES TO DISSOCIATE ITSELF FROM THOSE PROPOSALS WHOSE ADOPTION MAY ADVERSELY AFFECT ITS STANDING IN THE PRIVATE FINANCIAL MARKETS. WE CAN, THEREFORE, EXPECT

BRAZIL TO CONTINUE TO SIDE WITH THE LDCS ON THIS ISSUE;
HOWEVER, WE SHOULD SEE BRAZIL AS A MODERATING
INFLUENCE WITHIN THE THIRD WORLD CAMP AND IT MAY EVEN BE
ABLE TO PLAY THE ROLE OF A BRIDGE IN NAIROBI BETWEEN THE CREDITOR
COUNTRIES AND THE "RADICAL" MEMBERS OF THE LDCS.
CRIMMINS

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